

NEW MEXICO HEALTH AND LIFE INSURANCE PRACTICE EXAM (SAMPLE)

STUDY GUIDE



SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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THE FULL VERSION STUDY GUIDE

<https://nmhealthlifeinsurance.examzify.com>



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Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 – 45 minutes). Review a handful of questions, reflect on the explanations.

3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

Questions

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- 1. What characterizes a moral hazard?**
 - A. An increased likelihood of loss due to personal habits
 - B. Carelessness leading to potential losses
 - C. Structural issues that cause accidents
 - D. External environmental factors
- 2. Which of the following ratings agencies is known for evaluating the financial status of insurers?**
 - A. AM Best
 - B. Equifax
 - C. TransUnion
 - D. Experian
- 3. What potential economic aspect must be present for a risk to be insurable?**
 - A. Must be guaranteed by the state
 - B. Must involve high-risk individuals
 - C. Must have significant potential for economic loss
 - D. Must occur frequently and randomly
- 4. What distinguishes 'term' life insurance from 'whole' life insurance?**
 - A. Term life covers for life, while whole life is for a specific period
 - B. Term life offers cash value, while whole life does not
 - C. Term life provides coverage for a specific period, while whole life covers for life
 - D. Term life is less expensive than whole life for everyone
- 5. Which type of insurance is primarily concerned with coverage against loss related to property?**
 - A. Casualty insurance
 - B. Property insurance
 - C. Health insurance
 - D. Variable life insurance

- 6. What are the two main types of life insurance?**
- A. Term life insurance and endowment policies
 - B. Term life insurance and whole life insurance
 - C. Universal life insurance and variable life insurance
 - D. Whole life insurance and annuities
- 7. What does it mean for a life insurance policy to lapse?**
- A. The policyholder loses all benefits regardless of premium payments
 - B. The policy becomes void due to failure to pay premiums within the grace period
 - C. The policyholder changes the beneficiary
 - D. The insurance coverage increases unexpectedly
- 8. Define 'pre-existing condition' in the context of health insurance.**
- A. A new medical condition developed after obtaining insurance
 - B. A medical condition that existed before the insurance policy started
 - C. An optional coverage offered by some health plans
 - D. A condition that is automatically covered by any insurance
- 9. What is emphasized in an insurance policy's "policyholder agreement"?**
- A. Terms, rights, and responsibilities of the insurer and policyholder
 - B. The method for filing claims
 - C. A list of covered medical conditions
 - D. The maximum payout limits for claims
- 10. What does 'uniformity' in policy language mean?**
- A. Consistency in terms and conditions within documents
 - B. Variation of policies to meet individual needs
 - C. Flexibility in coverage options for insured individuals
 - D. Annual updates based on market conditions

Answers

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1. A
2. A
3. C
4. C
5. B
6. B
7. B
8. B
9. A
10. A

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Explanations

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1. What characterizes a moral hazard?

- A. An increased likelihood of loss due to personal habits**
- B. Carelessness leading to potential losses
- C. Structural issues that cause accidents
- D. External environmental factors

A moral hazard refers to a situation where the behavior of a party changes to the detriment of another after a transaction or agreement has taken place. Specifically, it characterizes the increased likelihood of loss due to personal habits when individuals or organizations do not bear the full consequences of their actions. For example, if a person has insurance coverage for their property, they may take greater risks or show less caution because they know that any losses will be covered by the insurer. This shift in behavior is reflective of the moral hazard, as the insured party may not act as prudently as if they were fully exposed to the risk of loss. In contrast, the other choices focus on different aspects of risk and loss. Carelessness, structural issues, and external environmental factors do not specifically reflect the concept of moral hazard, which is fundamentally rooted in changes to behavior due to the existence of insurance or a safety net.

2. Which of the following ratings agencies is known for evaluating the financial status of insurers?

- A. AM Best**
- B. Equifax
- C. TransUnion
- D. Experian

AM Best is the rating agency specifically recognized for evaluating the financial strength and overall performance of insurance companies. It focuses on assessing the ability of insurers to meet their ongoing insurance obligations, which is crucial for policyholders when considering the stability and reliability of an insurance provider. The ratings provided by AM Best reflect the insurer's creditworthiness and financial stability, making it a key resource for consumers, agents, and stakeholders in the insurance industry. In contrast, Equifax, TransUnion, and Experian are all credit reporting agencies that specialize in personal credit scores and financial history for individuals rather than assessing the financial status of insurers. While these agencies play an important role in consumer credit, they do not evaluate or provide ratings for insurance companies in the same capacity as AM Best. This makes AM Best the appropriate choice for evaluating the financial status of insurers.

3. What potential economic aspect must be present for a risk to be insurable?

- A. Must be guaranteed by the state
- B. Must involve high-risk individuals
- C. Must have significant potential for economic loss**
- D. Must occur frequently and randomly

For a risk to be insurable, it is essential that there is a significant potential for economic loss associated with the risk event. Insurance is fundamentally a mechanism for transferring and managing risk, and it relies on the assessment of the financial impact that a specific risk event could have on the insured party. If the potential loss is substantial, it creates a viable reason for individuals or businesses to seek insurance, as they wish to mitigate potential financial hardship. The presence of significant economic loss potential ensures that the concept of pooling risk is practical, as it attracts a sufficient number of policyholders who anticipate the same risks. This collective pooling of risk helps to stabilize premiums and enables insurers to pay out claims while still maintaining financial viability. When the potential loss is low, individuals are less likely to invest in insurance because the cost of premiums may outweigh the benefits of coverage. Thus, significant potential for economic loss is a fundamental characteristic that makes a risk insurable.

4. What distinguishes 'term' life insurance from 'whole' life insurance?

- A. Term life covers for life, while whole life is for a specific period
- B. Term life offers cash value, while whole life does not
- C. Term life provides coverage for a specific period, while whole life covers for life**
- D. Term life is less expensive than whole life for everyone

Term life insurance is specifically designed to provide coverage for a predetermined period, or "term," such as 10, 20, or 30 years. This type of insurance offers a death benefit to the beneficiaries if the insured passes away during the specified period. If the term expires and the policyholder is still alive, the coverage ends without any payout and no cash value accumulates. Whole life insurance, on the other hand, provides lifelong coverage as long as premiums are paid. Aside from the death benefit, whole life policies also accumulate cash value over time, which can be borrowed against or withdrawn. This makes whole life an investment component in addition to merely being a death benefit. The distinction is therefore clear: term life insurance is temporary and does not build cash value, while whole life insurance is permanent and includes a savings component, ensuring coverage lasts for the policyholder's lifetime.

5. Which type of insurance is primarily concerned with coverage against loss related to property?

- A. Casualty insurance
- B. Property insurance**
- C. Health insurance
- D. Variable life insurance

Property insurance is specifically designed to provide coverage against loss or damage to property. This type of insurance protects the policyholder's physical assets, such as homes, personal belongings, and commercial properties, from various risks including theft, fire, natural disasters, and other perils. By offering financial protection, property insurance ensures that the insured can recover from potential financial losses associated with damage to their property. In contrast, casualty insurance deals with liability and covers legal costs or damages resulting from injuries or damages to others due to the insured's actions. Health insurance focuses on medical expenses and healthcare services, while variable life insurance is a type of life insurance that combines a death benefit with an investment component. Hence, property insurance is the most appropriate choice when it comes to coverage directly related to property loss.

6. What are the two main types of life insurance?

- A. Term life insurance and endowment policies
- B. Term life insurance and whole life insurance**
- C. Universal life insurance and variable life insurance
- D. Whole life insurance and annuities

The two main types of life insurance are term life insurance and whole life insurance. Term life insurance offers coverage for a specified period, typically ranging from one to thirty years. If the insured passes away during this period, the death benefit is paid out to the beneficiaries. However, if the term expires and the insured is still alive, no benefit is paid, making it a cost-effective choice for many individuals seeking temporary coverage. Whole life insurance, on the other hand, provides coverage for the individual's entire lifetime, as long as premiums are paid. In addition to offering a death benefit, whole life policies also accumulate cash value over time, which can be borrowed against or withdrawn by the policyholder. This makes whole life insurance not only a means of providing financial security for beneficiaries upon death but also a valuable financial asset for the policyholder during their lifetime. The other options presented include forms of life insurance that, while important, do not represent the two main types. For instance, endowment policies are specialized forms of life insurance that combine features of whole life and term insurance but are not as widely recognized as the primary categories. Similarly, universal life and variable life insurance are types of permanent life insurance but are considered subcategories within the broader classifications of permanent coverage rather

7. What does it mean for a life insurance policy to lapse?

- A. The policyholder loses all benefits regardless of premium payments
- B. The policy becomes void due to failure to pay premiums within the grace period**
- C. The policyholder changes the beneficiary
- D. The insurance coverage increases unexpectedly

A life insurance policy lapsing refers to the situation in which the policy becomes void as a result of the policyholder's failure to pay the required premiums within the designated grace period. Insurance policies typically include specific terms regarding payment schedules and grace periods, which give policyholders additional time to make overdue payments without losing coverage. However, if payments are not made even after this grace period, the policy will lapse, resulting in the loss of coverage and benefits associated with the policy. This process is significant as it impacts the protection that life insurance offers. Once a policy lapses, the insurer is no longer obligated to pay death benefits or any other benefits that the policy might have provided. The policyholder may also lose any cash value accumulated in permanent policies. Understanding the implications of a policy lapse is crucial for maintaining continuous coverage and ensuring that beneficiaries remain protected.

8. Define 'pre-existing condition' in the context of health insurance.

- A. A new medical condition developed after obtaining insurance
- B. A medical condition that existed before the insurance policy started**
- C. An optional coverage offered by some health plans
- D. A condition that is automatically covered by any insurance

The term 'pre-existing condition' in the context of health insurance refers specifically to any medical condition or illness that a person had prior to the start date of their health insurance policy. This can include chronic illnesses, injuries, or any diagnosed conditions that existed before the coverage was initiated. Understanding this definition is crucial because it directly impacts how insurance companies assess risk and determine coverage. Many health insurance policies may place restrictions or waiting periods on coverage for these pre-existing conditions, which is designed to protect insurers from taking on high-risk clients who may already require extensive medical care prior to obtaining health insurance. This distinction is especially important given how health insurance practices have evolved, particularly with legislation aimed at ensuring individuals with pre-existing conditions cannot be denied coverage outright. The other choices do not align with the standard definition: a new medical condition is not relevant in this context, optional coverages do not pertain to pre-existing conditions directly, and the concept that any condition would be automatically covered contradicts the nature of how pre-existing conditions are treated in many insurance policies.

9. What is emphasized in an insurance policy's "policyholder agreement"?

- A. Terms, rights, and responsibilities of the insurer and policyholder**
- B. The method for filing claims
- C. A list of covered medical conditions
- D. The maximum payout limits for claims

The policyholder agreement is a foundational document in an insurance policy that outlines the essential terms, rights, and responsibilities of both the insurer and the policyholder. This agreement serves as a mutual understanding of what each party can expect from the other during the term of the policy. Within this agreement, you will find important details such as the obligations of the insurer to provide coverage, handle claims, and communicate policy changes, as well as the responsibilities of the policyholder, including timely premium payments and the requirement to disclose accurate information during the application process. This framework is crucial as it shapes the entire relationship between the insurer and the policyholder, ensuring both parties understand their roles. While the other aspects mentioned, such as the method for filing claims, lists of covered medical conditions, and maximum payout limits, are important parts of an insurance policy, they specifically fall under broader categories of policy details rather than the comprehensive nature of the policyholder agreement itself. Thus, the emphasis of the policyholder agreement is indeed on the overall terms that govern the entire insurance contract.

10. What does 'uniformity' in policy language mean?

A. Consistency in terms and conditions within documents

B. Variation of policies to meet individual needs

C. Flexibility in coverage options for insured individuals

D. Annual updates based on market conditions

Uniformity in policy language refers to the use of consistent terms and conditions across insurance documents. This means that similar policies will contain language that is standardized, promoting clarity and reducing ambiguity for policyholders. Uniformity helps ensure that insured individuals have a clear understanding of their rights, responsibilities, and coverage. When policies use consistent language, it simplifies the comparison between different insurance products and aids in regulatory compliance by ensuring that all policies adhere to common standards. Having uniform language ultimately protects consumers by maintaining certain expectations regarding the insurance coverage they purchase.

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Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

<https://nmhealthlifeinsurance.examzify.com>

We wish you the very best on your exam journey. You've got this!

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